



IOWA STATE UNIVERSITY

OF SCIENCE AND TECHNOLOGY

Financial Report

For the year ended June 30, 2004

On the cover:

C.Y. Stephens Auditorium, Iowa State's premier performing arts facility, has been judged Iowa's "Building of the Century" by the American Institute of Architects- Iowa Chapter. The dazzling 2,747-seat crown jewel of the Iowa State Center complex also took top honors in the judging of architectural projects across the state for the decade of 1960-1969. Three hundred buildings in Iowa were nominated. The winners were announced in October 2004. Judges admired the architectural design for both the acoustics inside and for the creative use of materials such as concrete and glass. Built in 1969, the building's architects were Crites & McConnell and Brooks Borg Skiles.



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IOWA STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2004

Iowa State University provides this Management's Discussion and Analysis as a narrative overview of the financial activities of the University for the year ended June 30, 2004, along with comparative data for the years ended June 30, 2003 and 2002. Readers are encouraged to consider this information in conjunction with the University's financial statements that follow.

In 2004, Iowa State University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, which requires the primary government to discretely present, within its own statements, the financial statements of certain component units. As explained in Note 1B3, the Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation") are a legally separate, tax-exempt component unit of the University and, accordingly, the combined financial statements are discretely presented with those of the University. However, since the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University, a discussion of these assets is not included in this Management's Discussion and Analysis.

USING THIS ANNUAL REPORT

This analysis is intended to serve as an introduction to Iowa State University's basic financial statements. These basic financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These provide information on the University as a whole and present both a short term as well as a longer term view of the institution's financial position. These basic financial statements also include the Notes to the Financial Statements which explain and provide further detail of the basic statements.

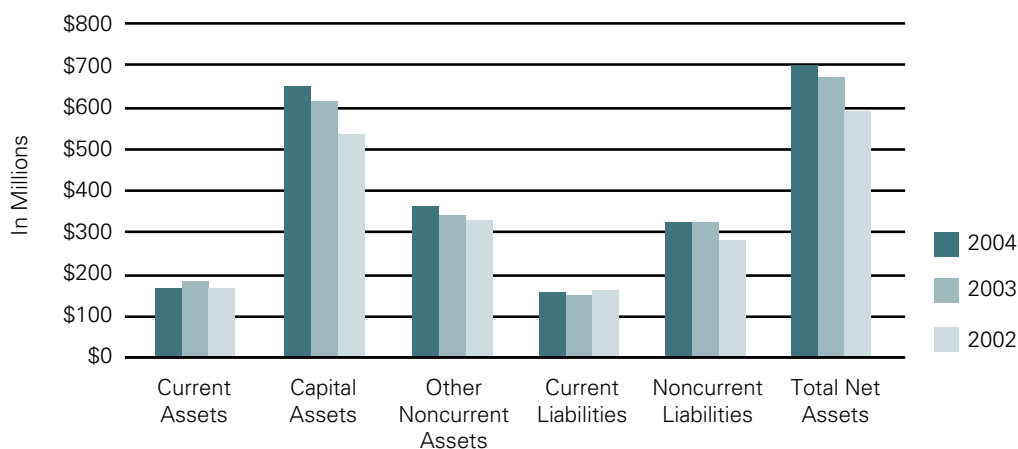
THE UNIVERSITY AS A WHOLE

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the institution. Net Assets—the difference between assets and liabilities—is one indicator of the current financial condition of the University, while the change in net assets (shown on the next statement) is an indicator of whether the overall financial condition has improved during the year. The Statement of Net Assets is also a good source for readers to determine how much the University owes to outside vendors, investors and lending institutions. Similarly, the Statement presents the available assets that can be used to satisfy those liabilities.

	<i>June 30, 2004</i>	<i>June 30, 2003</i> <i>Restated</i>	<i>June 30, 2002</i>
<i>Current Assets</i>	\$ 164,569,535	\$ 180,572,237	\$ 165,201,038
<i>Capital Assets</i>	649,041,722	609,719,971	533,802,578
<i>Other Noncurrent Assets</i>	354,932,346	336,481,522	327,879,127
<i>Total Assets</i>	<u>1,168,543,603</u>	<u>1,126,773,730</u>	<u>1,026,882,743</u>
<i>Current Liabilities</i>	151,619,320	141,650,992	154,701,852
<i>Noncurrent Liabilities</i>	319,323,031	318,082,527	280,377,408
<i>Total Liabilities</i>	<u>470,942,351</u>	<u>459,733,519</u>	<u>435,079,260</u>
<i>Total Net Assets</i>	<u>\$ 697,601,252</u>	<u>\$ 667,040,211</u>	<u>\$ 591,803,483</u>

Total assets at June 30, 2004, were \$1.2 billion, an increase of 3.7%. Net capital assets comprised \$649 million of the \$1.2 billion in assets. Total liabilities were \$470.9 million at June 30, 2004, an increase of \$11.2 million. The comparison of current and noncurrent assets, liabilities and net assets as of June 30, 2004, 2003 and 2002 is shown above. Changes in 2004 were less dramatic than those in 2003 when total assets increased 9.7% and total liabilities increased 6% over 2002.



Total net assets at June 30, 2004, were \$697.6 million, an increase of \$30.6 million over the prior year. The explanation for the change in net assets is covered in the next section of this MD&A. The largest portion of the University's net assets (59.4%) is categorized as Invested in Capital Assets, Net of Related Debt. This category contains the land, buildings, infrastructure, land improvements and equipment owned by the University. The restricted portion of the net assets (9.7%) is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by the external entities that have placed time or purpose restrictions on the use of the assets. The remaining net assets are unrestricted net assets, including those used to meet specific purposes such as funding for the bonded enterprises. The composition of the net asset balances is shown below. The categories, as a percentage of total net assets, have not changed significantly from 2003.

	June 30, 2004	June 30, 2003 Restated	June 30, 2002
<i>Invested in Capital Assets, Net of Related Debt</i>	\$414,256,199	\$387,394,894	\$331,116,200
<i>Restricted Nonexpendable</i>	28,071,960	27,626,992	29,197,919
<i>Restricted Expendable</i>	39,531,279	37,735,867	36,958,364
<i>Unrestricted</i>	215,741,814	214,282,458	194,531,000
<i>Total Net Assets</i>	<u>\$697,601,252</u>	<u>\$667,040,211</u>	<u>\$591,803,483</u>

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the operating and nonoperating revenues earned by the University, the operating and nonoperating expenses incurred by the University, and any other revenues, expenses, gains and losses earned or incurred by the University.

In general, a public university such as Iowa State University will report an operating loss since the financial reporting model classifies state appropriations as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the University. Operating expenses are those expenses paid to carry out the missions of the University. Nonoperating revenues are revenues received where goods and services are not provided.

Had state appropriations been included in operating revenues, the operating loss for 2004 would have been \$24.5 million compared to \$1.8 million for 2003 and a net operating excess of \$3.0 million for 2002. This recent decline is attributable to a number of factors, including increases in auxiliary expenses without corresponding increases in revenues, spending of contract and grant revenues earned in a prior year, and the higher dollar threshold for equipment purchases which translates to more items being expensed.

	<i>June 30, 2004</i>	<i>June 30, 2003</i>	<i>June 30, 2002</i>
<i>Operating Revenues</i>	\$476,204,171	\$455,373,268	\$420,696,310
<i>Operating Expenses</i>	737,403,115	707,858,884	677,380,534
<i>Operating Loss</i>	(261,198,944)	(252,485,616)	(256,684,224)
<i>Nonoperating Revenues and Expenses</i>	259,880,319	290,357,446	297,721,634
<i>Income/(Loss) Before Other Revenues, Expenses, Gains and Losses</i>	(1,318,625)	37,871,830	41,037,410
<i>Other Revenues, Expenses, Gains and Losses</i>	31,879,666	51,152,875	9,331,618
<i>Increase in Net Assets</i>	30,561,041	89,024,705	50,369,028
<i>Net Assets, Beginning of Year</i>	667,040,211	591,803,483	550,874,106
<i>Prior Period Adjustment</i>		(13,787,977)	(9,439,651)
<i>Net Assets, End of Year</i>	\$697,601,252	\$667,040,211	\$591,803,483

Revenues

Operating revenues for the year ended June 30, 2004, increased \$20.8 million. Major components of this change were:

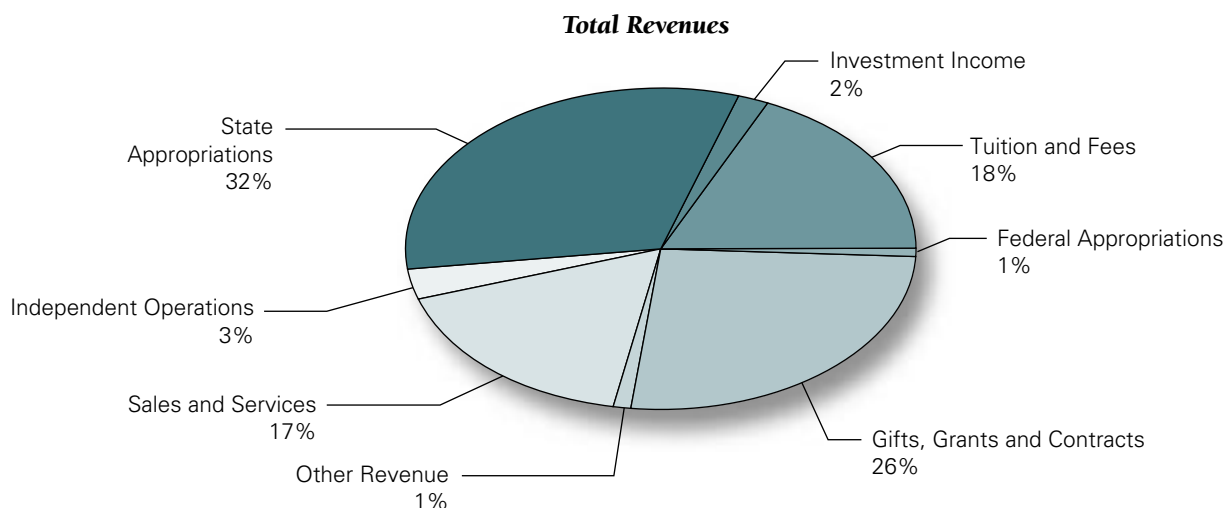
- Tuition and fees, net of scholarship allowances, increased \$16.8 million due to an increase in tuition rates, as enrollment was generally flat.
- Revenues from federal appropriations increased \$1.65 million due to timing differences with the federal fiscal year. Funds can only be drawn as expenses are incurred and, accordingly, may vary from year to year. The actual appropriations remained relatively consistent.
- Federal grants and contracts increased \$9.5 million. Awards for sponsored funding reached a record level for the sixth year in a row.
- Nongovernmental grants and contracts that are considered operating revenue decreased \$3.7 million primarily because more of the fiscal 2004 awards were considered gift revenue and, consequently, appear in the nonoperating revenue section.
- Sales and services of educational activities increased \$2.6 million due to an increase in fee-for-service type operations that are a natural outgrowth of reduced funding from the state.
- Other operating revenues declined \$5.6 million. More than half of this reduction was due to a decline in patent royalties received by the Iowa State University Research Foundation, a blended component unit.

Nonoperating revenues declined \$11.5 million from the year ended June 30, 2003. Without the effect of the acquisition of the Memorial Union which affected the 2003 revenue, nonoperating revenues decreased \$5.3 million. Major components of this change were:

- State appropriations, excluding capital, decreased \$13.9 million.
- Gifts increased \$2.3 million. As noted in the previous section, more nongovernmental awards were considered gifts in fiscal 2004.
- Realized and unrealized investment income totaled \$17.6 million, an increase of \$5.8 million.

Other revenues decreased \$19.2 million or 37.5% over the year ended June 30, 2003. However, the prior period adjustment included a reduction of \$16.4 million for gifts of developmental software that should not have been recognized in 2003. Had these capital gifts not been included in 2003 revenues, the current year decrease would have been \$2.8 million.

In summary, total revenues of the University decreased \$9.8 million in fiscal 2004, from \$810.2 million to \$800.4 million. The components of these revenues are shown on the following graph.



In comparing the years ended June 30, 2003 and 2002, operating revenues increased \$34.7 million. Major elements of this increase were contracts and grants, which grew \$16.4 million, and tuition and fees, net of scholarship allowances, which increased \$16.8 million or 15%. This was due primarily to an 18.5% average tuition increase. In fiscal 2003, nonoperating revenues decreased \$7.6 million from 2002. As in 2004, major components of the decrease were declines in state appropriations and increases in gifts and investment income.

Expenses

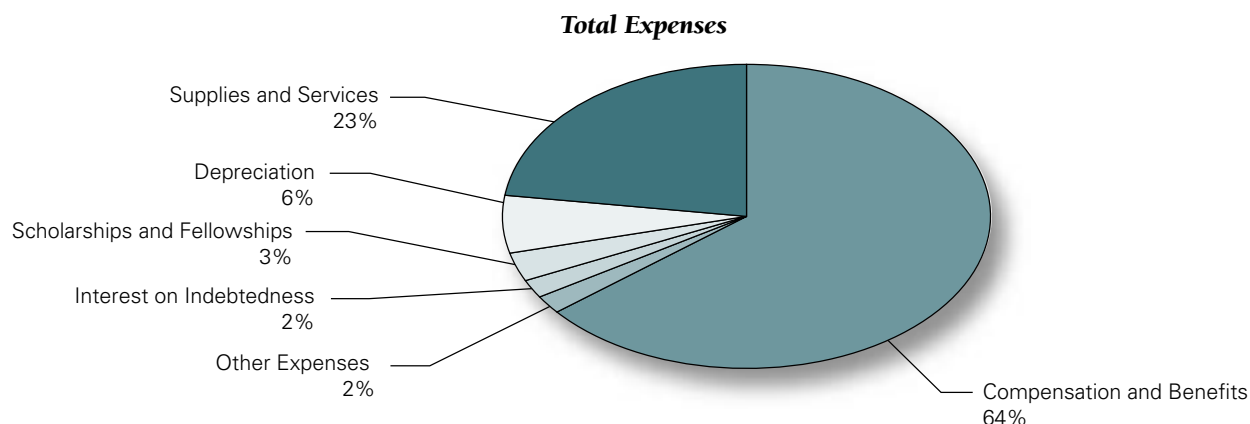
Operating expenses were \$737.4 million for the 2004 fiscal year. This was an increase of 4.2%, or \$29.5 million over the previous fiscal year. Changes in the major natural expense categories were:

- Compensation and benefits increased \$31.3 million or 6.8%. This increase was due to a combination of salary increases, increases in the cost of benefits and the addition of 366 additional full-time equivalent employees. The employees were primarily in the Professional and Scientific and Student Assistant categories.
- Scholarship expense decreased \$2.3 million or 10.5%. While total aid to students increased, a greater portion of the aid is reported as scholarship allowances, which is a reduction of revenue rather than an expense.
- Supplies and services increased \$5 million or 2.9%. The change in capitalization level caused items that previously would have been capitalized to be expensed in 2004.
- Depreciation decreased \$4.4 million or 9%. While several new facilities were opened in 2004, the capitalization level for equipment increased and, accordingly, related equipment depreciation declined \$5.8 million.

Operating expenses may be classified according to natural categories as in the previous paragraph or functionally as shown in the financial statements. From a functional perspective, the largest dollar increase was in research which grew \$11.6 million. This follows the increase in grant and contract revenue discussed in the previous section. Instructional expenses grew \$9.3 million.

Nonoperating expenses increased \$19 million due primarily to the loss on disposal of assets attributable to the write-off of equipment items that fell below the new capitalization threshold. In a write-off of this nature, the loss is equal to the book value of the items that were removed from capital asset records. In addition, interest on indebtedness increased 12.4% due to additional bonds issued during the year.

In summary, total expenses for 2004 were \$769.8 million, an increase of \$48.6 million or 6.7%. The components of these expenses are shown in the following graph:



Comparing the years ended June 30, 2003 and 2002, operating expenses in fiscal 2003 increased \$30.5 million over those of 2002, an increase very similar to that of 2004. In the natural classifications, all categories saw an increase over 2002, and the resulting percentages of the total were very similar to the percentages shown on the expense graph for 2004. Functionally, excluding the effects of reclassification, research and instruction had the majority of the increase. In fiscal 2003, nonoperating expenses declined by 2% from those of 2002 due to a lower loss on disposal of capital assets in 2003.

Changes in Net Assets

Net assets increased \$30.6 million for the year. Generally, an increase in net assets indicates that the financial condition has improved over the year, at least on a short-term basis. Major sources of this increase in net assets were:

- Capital appropriations and capital gifts, grants and contracts of \$31.7 million increased revenues while the related expenditure of funds for capital assets was capitalized rather than expensed, resulting in an increase in net assets.
- Realized and unrealized investment gains increased net assets by \$17.6 million.
- Removal of equipment items below the capitalization threshold decreased net assets by \$18.9 million.

Without the effects of the change in capitalization, net assets would have increased \$49.5 million. This is still below the 2003 increase (modified for the \$13.8 million in prior period adjustments) of \$75.2 million which was attributed to significant capital grants and contracts as well as capital appropriations. Since these revenues are associated with specific capital projects that are part of a long range capital plan, the decline in capital grants, contracts and appropriations is not a cause for concern.

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of the University for the fiscal year. This Statement also aids in the assessment of the University's ability to generate future net cash flows, ability to meet obligations as they come due and needs for external financing. The Statement of Cash Flows presents information related to cash inflows and outflows, categorized as operating, non-capital financing, capital and related financing, and investing activities.

Cash provided by operating activities includes tuition and fees and grant and contract revenues. Cash used for operating activities includes payments to employees and to suppliers. Cash provided or used by non-capital financing activities includes state appropriations, the receipt and disbursement of the federal direct loan program, and non-capital gifts. Cash provided or used for capital and related financing activities represents proceeds from debt, the principal and interest payments towards debt, capital appropriations, capital gifts and grants, and the purchase and construction of capital assets. Cash provided or used by investing activities includes purchases and sales of investments as well as investment income and losses realized.

The University's overall liquidity improved during 2004 with a net increase to cash and cash equivalents of \$15 million. This compares to an increase in cash and cash equivalents of \$31.8 million for 2003.

The primary factor causing the change was that capital and related financing activities in fiscal 2004 used cash of \$95.5 million while capital and related financing activities in fiscal 2003 used cash of \$61.6 million. The difference is due to less new debt financing in 2004 (see Debt Administration section of this MD&A) and lower capital appropriations as discussed in the previous section.

	<i>For the Years Ended</i>		
	<i>June 30, 2004</i>	<i>June 30, 2003</i>	<i>June 30, 2002</i>
<i>Cash Provided/(Used) by:</i>			
<i>Operating Activities</i>	<i>\$(211,678,830)</i>	<i>\$(213,754,215)</i>	<i>\$(207,650,746)</i>
<i>Non-capital Financing Activities</i>	<i>295,045,760</i>	<i>286,269,991</i>	<i>285,915,298</i>
<i>Capital and Related Financing Activities</i>	<i>(95,496,565)</i>	<i>(61,596,260)</i>	<i>(74,352,249)</i>
<i>Investing Activities</i>	<i>27,106,328</i>	<i>20,843,841</i>	<i>(6,991,440)</i>
<i>Net Increase/(Decrease) in Cash</i>	<i>14,976,693</i>	<i>31,763,357</i>	<i>(3,079,137)</i>
<i>Cash and Cash Equivalents, Beginning of Year</i>	<i>146,098,356</i>	<i>114,334,999</i>	<i>117,414,136</i>
<i>Cash and Cash Equivalents, End of Year</i>	<i>\$ 161,075,049</i>	<i>\$ 146,098,356</i>	<i>\$ 114,334,999</i>

As noted previously, the financial reporting model mandates that state appropriations be classified as non-capital financing sources of cash. If state appropriations had been classified as operating sources of cash, the cash provided by operations would have been \$25 million for 2004 compared to \$36.9 million for 2003 and \$52 million for 2002. The decline is due primarily to operating expenses increasing at a higher rate than operating revenues. It should be noted that adjusted cash from operations continues to be positive although it has declined in recent years.

CAPITAL ASSETS

At June 30, 2004, the University had \$1.3 billion invested in capital assets with accumulated depreciation of \$654.2 million. Depreciation charges for fiscal year 2004 totaled \$44.9 million. Capital assets, net of accumulated depreciation, were as follows:

	<i>June 30, 2004</i>	<i>June 30, 2003</i>	<i>June 30, 2002</i>
<i>Land and Land Improvements, Nondepreciable</i>	<i>\$ 10,152,159</i>	<i>\$ 10,152,159</i>	<i>\$ 10,107,653</i>
<i>Construction in Progress</i>	<i>60,852,710</i>	<i>83,454,614</i>	<i>49,555,377</i>
<i>Infrastructure and Land Improvements, Depreciable</i>	<i>69,291,282</i>	<i>66,402,914</i>	<i>61,579,563</i>
<i>Buildings</i>	<i>416,881,966</i>	<i>341,373,538</i>	<i>309,287,672</i>
<i>Equipment and Library Collections</i>	<i>91,863,605</i>	<i>108,336,746</i>	<i>103,272,313</i>
<i>Total Capital Assets, Net Of Accumulated Depreciation</i>	<i>\$649,041,722</i>	<i>\$609,719,971</i>	<i>\$533,802,578</i>

During fiscal year 2004, several major projects were placed in service, including:

- Hoover Hall, part of the Engineering Teaching and Research Complex
- Gerdin Business Building
- Roy J. Carver Co-Laboratory
- College of Veterinary Medicine Biosecurity Unit
- Extension 4-H Youth Building
- Union Drive Community Center
- North Campus Chilled Water Facility

Hoover Hall has been funded by a variety of sources, including capital appropriations from the State of Iowa, a Revenue Note and private gifts; the Gerdin Business Building has been constructed with capital appropriations from the State of Iowa and private gifts; the Roy J. Carver Co-Laboratory and the College of Veterinary Medicine Biosecurity Unit projects have been funded with capital appropriations from the State of Iowa and a variety of University sources; the Extension 4-H Youth Building has been constructed with private gifts and University sources; the Union Drive Community Center have been funded with proceeds from Dormitory Revenue Bonds; the North Campus Chilled Water Facility has been funded with proceeds from Utility Revenue Bonds.

Several major construction projects were in progress at June 30, 2004. These are included in capital assets as construction in progress and will not be depreciated until the year they are placed in service. These projects, the first three of which were also in progress at June 30, 2003, include:

- Stephen and Debora Bergstrom Indoor Multipurpose Use and Training Facility
- Union Drive Suite Building 2
- Buchanan Hall renovation
- Regulated Materials Facility

The Stephen and Debora Bergstrom Indoor Multipurpose Use and Training Facility has been funded with proceeds from Revenue Bonds, Union Drive Suite Building 2 and the Buchanan Hall renovation projects have been funded with proceeds from Dormitory Revenue Bonds, and the Regulated Materials Facility has been funded with proceeds from Regulated Materials Revenue Bonds.

Capital Appropriations, Grants and Contracts

Capital appropriations from the State of Iowa are a major source of funding for construction of new buildings as well as major renovations. While several projects were funded in fiscal 2003, the capital appropriation of \$10.2 million for 2004 was for improvements to miscellaneous classrooms and auditoriums.

In addition, capital gifts and grants revenue of \$21.5 million was recognized. More detailed information about the University's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At June 30, 2004, the University had \$280.2 million of outstanding debt compared to \$278.5 million for the prior year. Detailed information about the University's outstanding debt is presented in Note 6 to the financial statements. The table below summarizes outstanding debt by type.

	<i>June 30, 2004</i>	<i>June 30, 2003</i>	<i>June 30, 2002</i>
<i>Bonds Payable-Academic</i>	\$ 66,080,000	\$ 65,105,000	\$ 72,405,000
<i>Bonds Payable-Enterprise Funds</i>	205,390,896	198,322,000	167,230,000
<i>Capital Leases</i>	2,458,980	1,757,719	2,263,879
<i>Notes Payable</i>	6,314,220	13,277,769	1,520,547
<i>Total Debt</i>	<u>\$280,244,096</u>	<u>\$278,462,488</u>	<u>\$243,419,426</u>

Three refunding issues of Academic Building Revenue Bonds, one of which included the refinancing of the Academic Building Project Note, caused the academic bonds payable to increase in 2004. The increase in bonds payable for enterprise funds was due to the issuance of Regulated Materials Facilities Revenues Bonds of \$6,750,000, Utility System Revenue Bonds of \$13,280,000, and Recreational Facility Revenue Refunding Bonds of \$6,210,000. For the year ended June 30, 2003, the increase in bonds payable was due to the issuance of Dormitory Revenue Bonds of \$21,575,000 and \$9,360,000 and Indoor Multipurpose Use & Training Facility Bonds of \$6,200,000.

The decrease in Notes Payable was due to the refinancing of the Academic Building Project Note as Academic Building Revenue Bonds. This \$7 million note was issued in fiscal 2003 and was part of the significant increase in Notes Payable for that year. In addition, the University assumed the \$4.5 million Memorial Union note in 2003.

ECONOMIC OUTLOOK

The University's economic outlook, dependent upon ongoing financial support from state government, student tuition and fees, and increasing revenue from private giving, is improving. There were no further state budget reductions in 2004, and those from prior years have been partially offset by higher tuition and fees. The national and Iowa economies are improving. State sales and income tax revenues are improving. The Iowa Values Fund, an economic development program which will benefit the University through specific support for a new biologics facility, has great potential to benefit the University's research initiatives and economic development within the state. The University's enrollment has declined slightly to 26,380, which reflects fewer Iowa high school graduates, higher tuition and fees impacting some students, and visa issues and challenges in entering the United States having an impact on international students. The University is expanding student aid and recruitment programs to maintain enrollment at or above the current levels. Early indications are that these

efforts will be successful. The University continues to have a very successful private philanthropy program. The number of donors who gave last year increased 14% to 53,441, with total gift production of more than \$208 million. "Investing in People" started two years ago to raise \$50 million. The new Iowa State University Foundation president and staff are beginning to plan a major capital campaign that will be launched in the near future. The political leadership in Iowa is indicating support for a new initiative by the Board of Regents, State of Iowa to fund a multi-year initiative to increase state funding. This appears to have the support of the Governor and legislative leadership in both houses. Supporting education continues to be a state priority. The three public universities are cooperating in a state-wide effort to increase public support. Contacts with alumni, community leaders and elected officials indicate some success in this effort. The University continues to receive strong support from elected federal officials who are in key positions in Congress. Private giving and endowment returns are improving. With only three public four-year higher education institutions, governed by a single board, the public universities are strategically seen as critical in improving the state's economic climate. The Board of Regents, State of Iowa is updating strategic plans and looking at ways to deliver services to the people of Iowa more efficiently.

In order to continue to provide a high quality educational experience, tuition rates were increased 8.3% for resident students and 5.3% for nonresident students for fiscal year 2005 to partially offset the reduction in state funding. In spite of relatively large tuition increases, the University's overall tuition rates remain competitive with surrounding public and other peer institutions. Headcount for fall semester 2004 was 26,380. The University continued the great success of its learning communities, the Center for Teaching Excellence, and other initiatives to improve faculty teaching skills and student learning. Students continue to report very high employment rates in their respective fields and/or continuing professional or graduate education. Employers and others clearly value an Iowa State University degree.

A third major source of revenue, sponsored funding, continues to experience steady growth. Awards received in fiscal year 2004 were \$274 million, setting a new record for sponsored funding awards. The receipt of an award generally precedes the receipt of the actual cash by at least a year, which bodes well for contract and grant and indirect cost revenues in the years to come. Although the University has a broad base of sponsored funding, it continues to focus on core strategic initiatives. During the past five years, sponsored funding has increased 50%. The University continues to be rated very high in R&D 100 awards, number of patents and invention disclosures received, and in licenses executed. The Plant Sciences Institute, a strategic initiative, is becoming a major worldwide center and occupied new state-of-the-art facilities this past year with additional green house space under construction. Initiatives in information assurance, food safety and bio-renewable resources show promise.

The University completed several new building and renovation projects last year, including Hoover Hall, the Roy J. Carver Co-Laboratory, Gerdin Business Building, community center for students, Extension 4-H Youth building, childcare facility, parking deck, a new student suite building and continuing renovation of student residence halls. Currently being planned or under construction are a new Alumni Center, renovation of the College of Veterinary Medicine, Coover Hall renovation for electrical and computer engineering, renovation of the student Memorial Union facility, a new Regulated Materials facility, Morrill Hall renovation, general classroom renovations and the remodeling of Carver Hall and Pearson Hall for major classroom and academic facilities.

Despite a challenging year in terms of state funding, Iowa State University continues to make important progress toward fulfilling the goals of its 2000-2005 Strategic Plan, "Pursuing Excellence as Iowa's Engaged Land-Grant University" and has completed the draft of a new strategic plan for 2005-2010 that will be approved by the Board of Regents, State of Iowa early in 2005. We continue our historic missions to be the best at advancing the land-grant ideals and putting science and technology to work. More than 20% of Iowa's population has interacted with Iowa State University to receive education, to improve their quality of life, and to improve economic prospects for them, their companies and their communities.

Although economic challenges will continue, the economy is improving and world events are more stabilized. The University is strengthening its academic excellence that makes it one of the nation's best universities in fulfilling its land-grant mission.

CONTACTING IOWA STATE UNIVERSITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide users with a general overview of Iowa State University's finances and to demonstrate the University's accountability for the funds received. Questions regarding this report or requests for additional financial information should be directed to the Controller's Department, Iowa State University, 3607 Administrative Services Building, Ames, IA 50011-3607.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Members of the
Board of Regents, State of Iowa:

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows, of Iowa State University of Science and Technology, Ames, Iowa, (Iowa State University) and its discretely presented component unit as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (herein collectively referred to as the "Foundation"), discussed in note 1, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the financial statements of the blended component units, Iowa State University Research Foundation, Incorporated and Miller Endowment, Incorporated as discussed in note 1, which represent 3.2% and 2.1%, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented and blended component units, are based on the reports of the other auditors.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits and the reports of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Iowa State University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of Iowa State University. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2004 and 2003 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

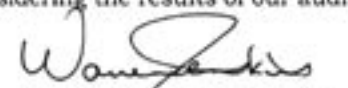
In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Iowa State University at June 30, 2004 and 2003, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, during the year ended June 30, 2004, Iowa State University adopted Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations Are Component Units.

Management's Discussion and Analysis on pages 2 through 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

The report on Iowa State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants required by Government Auditing Standards will be issued under separate cover. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 1, 2004

IOWA STATE UNIVERSITY

STATEMENT OF NET ASSETS

As of June 30, 2004 and 2003

ASSETS	2004	2003
Current Assets:		
Cash and cash equivalents (Note 2A)	\$ 70,399,233	\$ 51,936,012
Investments (Note 2B)	37,719,524	68,289,281
Deposits with trustees (Note 2D)	98,403	518,091
Accounts receivable, net (Note 3A)	15,831,337	19,844,548
Due from government agencies (Note 3B)	22,788,201	21,898,361
Interest receivable	1,196,773	1,480,509
Student loans receivable, net (Note 3C)		197,833
Inventories (Note 4)	13,344,146	13,301,972
Prepaid expenses	3,191,918	3,105,630
Total Current Assets	164,569,535	180,572,237
Noncurrent Assets:		
Cash and cash equivalents (Note 2A)	90,675,816	94,162,344
Investments (Note 2B)	220,345,546	198,615,285
Deposits with trustees (Note 2D)	936,163	325,000
Accounts receivable, net (Note 3A)	9,335,550	15,135,464
Due from government agencies (Note 3B)	10,012,221	4,063,916
Interest receivable	812,840	1,068,467
Prepaid expenses		19,668
Student loans receivable, net (Note 3C)	22,749,874	23,027,042
Equity in wholly owned subsidiary (Note 1B)	64,336	64,336
Capital assets, net of accumulated depreciation (Note 5)	649,041,722	609,719,971
Total Noncurrent Assets	1,003,974,068	946,201,493
TOTAL ASSETS	1,168,543,603	1,126,773,730
LIABILITIES		
Current Liabilities		
Accounts payable	32,745,039	28,468,540
Salaries and wages payable	3,051,091	2,804,337
Unpaid claims liability (Note 10B)	3,233,000	3,537,000
Deferred revenue	27,491,310	28,998,482
Interest payable	7,456,444	6,702,271
Long-term debt, current portion (Note 6)	15,644,263	21,810,910
Other long-term liabilities, current portion (Note 6)	21,187,970	21,092,462
Deposits held in custody for others	40,810,203	28,236,990
Total Current Liabilities	151,619,320	141,650,992
Noncurrent Liabilities		
Accounts payable	2,810,264	10,259,001
Long-term debt, noncurrent portion (Note 6)	264,599,833	256,651,578
Other long-term liabilities, noncurrent portion (Note 6)	51,912,934	51,171,948
Total Noncurrent Liabilities	319,323,031	318,082,527
TOTAL LIABILITIES	470,942,351	459,733,519
NET ASSETS		
Invested in capital assets, net of related debt	414,256,199	387,394,894
Restricted (Note 8):		
Nonexpendable	28,071,960	27,626,992
Expendable	39,531,279	37,735,867
Unrestricted	215,741,814	214,282,458
TOTAL NET ASSETS	\$ 697,601,252	\$ 667,040,211

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of \$42,174,288 and \$35,231,700 for the years ended June 30, 2004 and 2003, respectively (Note 1N)	\$145,342,017	\$128,523,687
Federal appropriations	11,731,700	10,081,252
Federal grants and contracts	118,754,720	109,290,099
State and local government grants and contracts	14,130,418	14,231,670
Nongovernmental grants and contracts	18,630,020	22,341,003
Sales and services of educational activities	33,325,589	30,687,059
Auxiliary enterprises, net of scholarship allowances of \$2,967,676 and \$2,581,543 for the years ended June 30, 2004 and 2003, respectively (Note 1N)	101,219,485	102,541,102
Independent operations	27,807,253	26,741,536
Interest on student loans	506,050	627,463
Other operating revenues	4,756,919	10,308,397
TOTAL OPERATING REVENUES	476,204,171	455,373,268
OPERATING EXPENSES		
Instruction	172,427,420	163,172,192
Research	151,384,187	139,742,656
Public service	66,576,694	64,557,779
Academic support	68,975,922	61,188,349
Student services	25,417,432	23,960,130
Institutional support	28,531,904	34,832,473
Operation and maintenance of plant	44,403,725	34,717,605
Scholarships and fellowships	20,005,848	22,346,233
Auxiliary enterprises	84,979,458	85,998,334
Independent operations	29,134,628	27,339,230
Depreciation	44,892,966	49,321,915
Other operating expenses	672,931	681,988
TOTAL OPERATING EXPENSES	737,403,115	707,858,884
OPERATING LOSS	(261,198,944)	(252,485,616)
NONOPERATING REVENUES/(EXPENSES)		
State appropriations	236,708,764	250,652,889
Federal grants and contracts	13,515,531	13,002,276
Nonfederal gifts, grants and contracts	24,365,222	22,050,959
Investment income/(loss)	17,581,067	11,771,275
Interest on indebtedness	(13,281,580)	(11,813,142)
Loss on disposal of capital assets	(18,857,419)	(1,285,320)
Acquisition of Memorial Union		6,196,095
Other nonoperating income (loss)	(151,266)	(217,586)
NET NONOPERATING REVENUES/(EXPENSES)	259,880,319	290,357,446
INCOME/(LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(1,318,625)	37,871,830
Capital appropriations	10,177,300	16,147,100
Capital gifts, grants and contracts	21,496,232	34,632,375
Additions to permanent endowments	307,932	373,400
Other revenues/(expenses)	(101,798)	
TOTAL OTHER REVENUES, EXPENSES, GAINS & LOSSES	31,879,666	51,152,875
INCREASE IN NET ASSETS	30,561,041	89,024,705
Net Assets, Beginning of Year	667,040,211	591,803,483
Prior Period Adjustment (Note 13)		(13,787,977)
NET ASSETS, END OF YEAR	\$697,601,252	\$667,040,211

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY

STATEMENT OF CASH FLOWS

For the years ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 143,865,883	\$ 127,508,653
Federal appropriations	11,640,824	10,038,754
Grants and contracts	150,269,128	140,036,547
Sales of educational activities	33,354,927	30,244,068
Sales and services of auxiliary enterprises	101,948,346	101,504,248
Receipts of independent operations	27,459,129	26,579,242
Interest on loans to students	648,068	691,942
Collections of loans from students	6,942,301	5,931,462
Payments for salaries and benefits	(489,477,625)	(460,558,201)
Payments for goods and services	(180,635,801)	(171,733,429)
Scholarship payments	(19,271,182)	(21,720,519)
Loans issued to students	(6,651,708)	(6,816,360)
Other operating receipts (payments)	8,228,880	4,539,378
NET CASH USED BY OPERATING ACTIVITIES	(211,678,830)	(213,754,215)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	236,708,764	250,652,889
Non-capital gifts, grants and contracts	38,508,620	34,335,885
Acquisition of Memorial Union		1,096,557
Direct lending receipts	131,938,793	115,408,721
Direct lending payments	(131,929,989)	(115,387,093)
Funds held for others receipts	280,570,447	241,222,471
Funds held for others payments	(260,750,875)	(241,059,439)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	295,045,760	286,269,991
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	4,291,000	14,281,000
Capital gifts and grants received	19,459,382	14,508,488
Proceeds from capital debt	28,684,312	45,420,000
Proceeds from sale of capital assets	1,192,054	753,035
Acquisition and construction of capital assets	(106,032,322)	(109,072,211)
Principal paid on capital debt	(22,611,229)	(14,752,537)
Interest paid on capital debt	(14,545,980)	(12,508,882)
Other capital and related financing receipts (payments)	(5,933,782)	(225,153)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(95,496,565)	(61,596,260)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received on investments	17,083,013	5,141,196
Proceeds from sales of investments	421,801,645	546,642,795
Purchases of investments	(411,778,330)	(530,940,150)
NET CASH PROVIDED BY INVESTING ACTIVITIES	27,106,328	20,843,841
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,976,693	31,763,357
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	146,098,356	114,334,999
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 161,075,049	\$ 146,098,356

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	\$(261,198,944)	\$(252,485,616)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	44,892,966	49,321,915
Changes in assets and liabilities:		
Accounts receivable, net	4,042,292	(5,485,291)
Inventories	(37,341)	(691,331)
Prepaid expenses	14,513	(335,378)
Student loans receivable	592,619	(722,447)
Accounts payable	(167,258)	333,287
Deferred revenue	(2,359,221)	(4,235,876)
Compensated absences	841,943	1,394,620
Early retirement benefits payable	1,500,794	(1,046,905)
Refundable advances on student loans	198,807	198,807
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(211,678,830)</u>	<u>\$(213,754,215)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Acquisition of Memorial Union capital assets		\$ 9,638,377
Acquisition of Memorial Union debt		\$ (4,623,354)
Capital gifts-in-kind	\$ 5,750,014	\$ 1,158,653
Assets acquired under capital leases	\$ 678,963	

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS

Cash and cash equivalents classified as current assets	\$ 70,399,233	\$ 51,936,012
Cash and cash equivalents classified as noncurrent assets	90,675,816	94,162,344
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 161,075,049</u>	<u>\$ 146,098,356</u>

See the accompanying notes which are an integral part of these financial statements.

**IOWA STATE UNIVERSITY FOUNDATION
IOWA STATE UNIVERSITY ACHIEVEMENT FUND
ORIGINAL UNIVERSITY FOUNDATION
COMBINED STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2004 and 2003

	June 30, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	\$ 2,270,525	\$	\$	\$ 2,270,525
Receivables:				
Pledges, net (Note 3D)	54,763	24,414,869	3,013,807	27,483,439
Estates	23,238	670,710	7,083,807	7,777,755
Funds held in trust by others		1,188,745	13,863,746	15,052,491
Total receivables	78,001	26,274,324	23,961,360	50,313,685
Investments (Note 2C):				
Pooled investments		68,069,633	262,871,943	330,941,576
Other marketable securities	127,667	14,652,832	20,648,475	35,428,974
Equity in subsidiary	2,546,928			2,546,928
Real estate and other investments	6,041,807	3,344,337	1,961,587	11,347,731
Total investments	8,716,402	86,066,802	285,482,005	380,265,209
Interfund receivable/(payable)	20,610	(20,610)		–
Property and equipment	3,786,036			3,786,036
Other assets	390,753	2,791,430	2,449	3,184,632
TOTAL ASSETS	\$15,262,327	\$115,111,946	\$309,445,814	\$439,820,087
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 509,252	\$ 221,151	\$	\$ 730,403
Due to related organizations	150,000	11,000,266	1,407,063	12,557,329
Bonds payable	3,704,419			3,704,419
Long-term liabilities	1,188,686	3,645,920		4,834,606
Annuities payable		7,332,667	12,783,771	20,116,438
TOTAL LIABILITIES	5,552,357	22,200,004	14,190,834	41,943,195
NET ASSETS (NOTE 8)	9,709,970	92,911,942	295,254,980	397,876,892
TOTAL LIABILITIES AND NET ASSETS	\$15,262,327	\$115,111,946	\$309,445,814	\$439,820,087

See the accompanying notes which are an integral part of these financial statements.

June 30, 2003

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,945,085	\$	\$	\$ 1,945,085
184,949	13,699,073	4,959,564	18,843,586
3,256	442,989	2,420,754	2,866,999
	595,211	7,953,754	8,548,965
188,205	14,737,273	15,334,072	30,259,550
	88,761,643	218,074,047	306,835,690
127,966	14,140,475	18,232,781	32,501,222
2,640,107			2,640,107
7,467,102	2,081,646	1,791,466	11,340,214
10,235,175	104,983,764	238,098,294	353,317,233
(1,066,670)	1,066,670		—
3,883,477			3,883,477
669,532	2,569,281	9,996	3,248,809
\$15,854,804	\$123,356,988	\$253,442,362	\$392,654,154
\$ 434,504	\$ 192,867	\$	\$ 627,371
150,000	10,516,740	1,281,487	11,948,227
3,835,000			3,835,000
835,170	3,763,168		4,598,338
	7,463,481	11,171,032	18,634,513
5,254,674	21,936,256	12,452,519	39,643,449
10,600,130	101,420,732	240,989,843	353,010,705
\$15,854,804	\$123,356,988	\$253,442,362	\$392,654,154

**IOWA STATE UNIVERSITY FOUNDATION
IOWA STATE UNIVERSITY ACHIEVEMENT FUND
ORIGINAL UNIVERSITY FOUNDATION
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the years ended June 30, 2004 and 2003

	Year Ended June 30, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	\$ 580,763	\$ 26,702,729	\$ 30,347,363	\$ 57,630,855
Investment return				
Pooled investments	5,729,201	9,753,750	22,056,940	37,539,891
Non-pooled investments	1,184,123	1,231,312	2,147,740	4,563,175
Equity in net income/(loss) of subsidiary	(73,342)			(73,342)
Total investment return	6,839,982	10,985,062	24,204,680	42,029,724
Fundraising service revenue	1,683,239			1,683,239
Return on funds held in trust by others		673,277	25,306	698,583
Other earnings	40,336	257,094	116,805	414,235
Net assets released from restrictions	47,607,695	(47,607,695)		—
TOTAL REVENUES	56,752,015	(8,989,533)	54,694,154	102,456,636
EXPENDITURES				
Program	48,112,695			48,112,695
Operating:				
Fundraising	6,368,472			6,368,472
Administrative	2,729,271			2,729,271
Annuity liability adjustment	431,737	(480,743)	429,017	380,011
TOTAL EXPENDITURES	57,642,175	(480,743)	429,017	57,590,449
CHANGE IN NET ASSETS	(890,160)	(8,508,790)	54,265,137	44,866,187
Net Assets, Beginning of Year	10,600,130	101,420,732	240,989,843	353,010,705
NET ASSETS, END OF YEAR	\$ 9,709,970	\$ 92,911,942	\$295,254,980	\$397,876,892

See the accompanying notes which are an integral part of these financial statements.

Year Ended June 30, 2003			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,102,698	\$ 30,331,113	\$ 11,919,253	\$ 44,353,064
8,045,106	14,879,908	(8,630,483)	14,294,531
113,594	989,707	2,371,044	3,474,345
272,308			272,308
8,431,008	15,869,615	(6,259,439)	18,041,184
1,112,887			1,112,887
	93,277	(1,043,459)	(950,182)
53,380	253,253	94,368	401,001
50,942,169	(50,942,169)		—
62,642,142	(4,394,911)	4,710,723	62,957,954
51,282,969			51,282,969
5,877,832			5,877,832
3,270,845			3,270,845
	(679,811)	401,916	(277,895)
60,431,646	(679,811)	401,916	60,153,751
2,210,496	(3,715,100)	4,308,807	2,804,203
8,389,634	105,135,832	236,681,036	350,206,502
\$ 10,600,130	\$101,420,732	\$240,989,843	\$353,010,705

IOWA STATE UNIVERSITY FINANCIAL REPORT

NOTES to the FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Iowa State University of Science and Technology (Iowa State University), located in Ames, Iowa, is a land grant institution owned and operated by the State of Iowa, under the governance of the Board of Regents, State of Iowa (Board of Regents). The Board of Regents is appointed by the governor and confirmed by the state senate. Because the Board of Regents holds the corporate powers of Iowa State University, the University is not deemed to be legally separate. Accordingly, for financial reporting purposes, the University is included in the financial report of the State of Iowa, the primary government, as required by U.S. generally accepted accounting principles. The University is classified as a state instrumentality under Internal Revenue Code Section 115 and is exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The University offers courses of study leading to degrees at the undergraduate, graduate, and post-graduate levels. Degrees are available from eight colleges: Agriculture, Business, Design, Education, Engineering, Family and Consumer Sciences, Liberal Arts and Sciences, and Veterinary Medicine. Other major operating units of the University are: Agricultural Experiment Station; statewide Cooperative Extension Service; and the Ames Laboratory, a U.S. Department of Energy sponsored Independent Operation. The campus consists of approximately 1,788 acres. In addition, farms and other properties, which are stocked and equipped for teaching and research purposes, total approximately 9,633 acres.

On April 1, 2003, the University acquired the net assets of the Iowa State Memorial Union, a nonprofit organization that provided the University's students, faculty, alumni, friends and guests with goods and services to enhance their social, moral, religious, literary, scientific and educational development and welfare. The University now manages and operates the Iowa State University Memorial Union as an auxiliary enterprise. The condensed financial statements for the fiscal year ended June 30, 2004, are found in Note 12 of these financial statements.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University (the primary government) and certain other entities for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. In May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement, which amends GASB Statement No. 14, *The Financial Reporting Entity*, has been implemented for the year ended June 30, 2004. The GASB classification of these entities for the University's financial reporting purposes does not affect their respective legal or organizational relationships to the University.

1. **Wholly Owned Subsidiary** - Effective July 1, 1987, the University formed the ISU Equities Corp., (ISUEC), as a wholly owned subsidiary. The University has recorded the investment in this wholly owned subsidiary following the equity method of accounting. The University's carrying value as of June 30, 2004, was \$64,336, the carrying value of ISUEC.
2. **Blended Component Units** - The Iowa State University Research Foundation, Inc. and Miller Endowment, Incorporated are entities which are legally separate from the University, but are so intertwined with the University that they are, in substance, part of the University. Accordingly, they are blended into the University's financial statements. The financial statements of these entities have been audited by other independent auditors and their reports may be obtained from the Office of the Vice President for Business and Finance at Iowa State University.

Iowa State University Research Foundation, Inc. was organized as a corporation to assist in securing protection for intellectual property such as patents and copyrights resulting from research, writing, and other projects of members of the Iowa State University community. The revenues of this organization are included in the “Other operating revenues” classification and expenses included in the “Institutional support” classification in the Statement of Revenues, Expenses and Changes in Net Assets. For the year ended June 30, 2004, the revenues and expenses were \$3,158,415 and \$2,142,202, respectively.

Miller Endowment, Incorporated was established December 18, 1995 pursuant to the will and codicil of F. Wendell Miller. The will and codicil appointed the presidents of Iowa State University and the State University of Iowa as co-executors of the Miller Estate and co-trustees of the Miller Endowment Trust, a charitable trust, and further directed that the two universities be equal beneficiaries of the income from said trust. The will and codicil also directed the trustees to have the right and discretion to create a charitable corporation, to be “Miller Endowment, Incorporated”, to own, administer and control the affairs and property of the trust. This corporation has been organized under Chapter 504A of the Code of Iowa and Section 501(C)(3) of the Internal Revenue Code. During fiscal year 1998, the assets of the trust were officially transferred to Miller Endowment, Incorporated. Since the net revenues and assets of the corporation are solely for the equal benefit of the two universities, one half of the value of the corporation’s transactions has been blended into the University’s operations.

3. **Discretely Presented Component Unit** – The Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the “Foundation”) are a legally separate, tax-exempt component unit of the University. The combined financial statements of the Foundation’s organizations are presented in these financial statements because the organizations have a common Board of Directors, common management, and the common objective to promote the welfare of the University and its faculty, graduates, students, and former students. The mission of the Foundation is to secure and manage private gifts that support the University’s aspiration to become the nation’s best land-grant university. The Foundation strives to maximize the interest, involvement and, ultimately, enduring commitment of donors, and to manage donated assets for the benefit of the University in accordance with donors’ wishes.

Although the University does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and its faculty, graduates, students and former students, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements. During the years ended June 30, 2004 and 2003, the Foundation distributed and expended \$48,112,695 and \$51,282,969 respectively on behalf of the University for both restricted and unrestricted purposes as follows.

	2004	2003
<i>Scholarships, loan funds, and awards</i>	\$ 13,260,674	\$ 9,933,386
<i>Faculty and staff support</i>	4,093,503	3,391,752
<i>College and administrative support</i>	7,574,402	7,458,319
<i>Buildings, equipment, and repairs</i>	22,483,021	13,912,934
<i>Gifts in kind</i>	701,095	16,586,578
<i>Total Program Support</i>	<u>\$ 48,112,695</u>	<u>\$ 51,282,969</u>

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial information in the University’s financial reporting entity for these differences.

Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary or affiliate of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Third parties dealing with the University should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations. Complete financial statements for the Foundation can be obtained from the Foundation at 2505 Elwood Drive, Ames, IA 50010-8644 or from the Foundation's website at www.foundation.iastate.edu/about/financial.

C. Financial Statement Presentation

The University's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB.)

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive entity-wide perspective of the University by requiring a Management's Discussion and Analysis; a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows. This presentation replaces the fund group perspective that was previously required.

When an expense is incurred in which both unrestricted and restricted net assets are available, the University's policy is to first apply the expense against the restricted, and then toward the unrestricted asset.

The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless those pronouncements conflict or contradict GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

D. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined in GASB Statement No. 35. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. As a result, revenues are recognized when earned, expenses recorded when an obligation has been incurred, and all significant intra-agency transactions have been eliminated.

E. Cash and Cash Equivalents

For purposes of the Statement of Net Assets and the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash.

F. Investments

Investments of the University are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Investments of the Foundation are carried at fair value as determined by values provided by an external investment manager and quoted market values. Real estate is carried at fair value based on independent appraisals, which are adjusted by the change in land values based on U.S. Census of Agriculture estimates and the latest survey of Iowa real estate brokers. The carrying values of other investments and long-term liabilities approximate fair value because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

G. Inventories

Inventories consist of supplies and merchandise for resale and livestock. Inventories of supplies and merchandise are valued at the lower of cost (primarily weighted average) or market. Inventories of livestock are reported at year-end market value.

H. Capital Assets

Capital assets are recorded at cost at the date of acquisition or at estimated fair market value at the date of donation. Capitalization of interest on assets under construction has not been included in the cost of those assets. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings, 10 to 30 years for infrastructure and land improvements, 2 to 20 years for equipment and 10 years for library collections.

I. Deferred Revenue

Deferred revenue includes items such as advance ticket sales, summer school tuition not earned during the current year, and amounts received from grants and contracts that have not yet been earned.

J. Compensated Absences

Employees' compensated absences are accrued when earned under the provisions of Chapters 79 and 262 of the Code of Iowa. Accrued vacation is paid at 100% of the employee's hourly rate upon retirement, death, or termination and, with certain exceptions, accrued sick leave is paid at 100% of the employee's hourly rate to a maximum of \$2,000 upon retirement. Accrued compensated absences reported on the Statement of Net Assets is based on the current rates of pay.

K. Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, as well as estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

L. Net Assets

The University's net assets are classified as follows:

1. **Invested in capital assets, net of related debt** – Capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction, or improvement of those assets.
2. **Restricted, nonexpendable** – Net assets subject to externally imposed restrictions in which the donors or other outside sources have stipulated the principal is to be maintained inviolate and retained in perpetuity and invested for the purpose of producing income which will either be expended or added to principal.
3. **Restricted, expendable** – Net assets subject to externally imposed restrictions on use of resources either legally or contractually.
4. **Unrestricted** – Net assets not subject to externally imposed restrictions and which may be used to meet current obligations for any purpose or designated for specific purposes by action of management or the Board of Regents.

M. Operating Revenues and Expenses

Operating revenues and expenses reported on the Statement of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

N. Revenue Pledged for Debt Service

Tuition and fees are pledged as security for Academic Building Revenue Bonds, Fieldhouse-Auditorium Revenue Bonds, Ice Arena Facility Revenue Notes, Indoor Multipurpose Use and Training Facility Revenue Bonds, Recreational Facility Revenue Bonds, and Student Health Facility Revenue Bonds. Auxiliary enterprise revenues are pledged as security for Dormitory Revenue Bonds, Indoor Multipurpose Use and Training Facility Revenue Bonds, Memorial Union Mortgage Notes, Parking System Revenue Bonds, Student Health Facility Revenue Bonds, Telecommunications Facilities Revenue Bonds, and Utility System Revenue Bonds.

O. Auxiliary Enterprise Revenues

Auxiliary enterprise revenues primarily represent revenues generated by the Athletic Department, University Book Store, Iowa State Center, Memorial Union, Parking System, Reiman Gardens, Residence Department, Student Health Center, Telecommunications System and Utility System.

P. Debt Issuance Costs

Debt issuance costs are expensed in the year the revenue debt is sold.

Q. Encumbrances

The University utilizes encumbrance accounting for budgetary control purposes. Each June 30th, the University is required to expend or encumber any cash balances remaining from the appropriations it receives for operating purposes, reverting any unencumbered funds. According to Section 8.33 of the Code of Iowa, the University is permitted to carry encumbrances for specialized equipment and building repairs forward to the next fiscal year. The June 30, 2004, encumbered balance carried forward to fiscal year 2005 was \$8,898,691, including items recognized as accounts payable for specialized equipment totaling \$106,657.

R. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - CASH, CASH EQUIVALENTS, INVESTMENTS AND DEPOSITS WITH TRUSTEES**A. Cash and Cash Equivalents**

As of June 30, 2004 and 2003, the book balances of cash and cash equivalents were \$161,075,049 and \$146,098,356, respectively. As of June 30, 2004 and 2003, the bank balances were \$164,207,559 and \$154,661,728, respectively, of which \$54,347,980 and \$45,917,099, respectively, were covered by Federal Depository Insurance (FDIC) or by the State's Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Of the bank balances as of June 30, 2004 and 2003, \$109,859,579 and \$108,744,629, respectively, were uninsured and uncollateralized.

B. Investments (University)

In accordance with the Code of Iowa and the Board of Regents' policy, the University's operating portfolio may be invested in obligations of the U.S. government or its agencies, certain high rated commercial paper, highly rated corporate bonds, certain limited maturity zero coupon securities, fully insured or collateralized certificates of deposits and savings, eligible bankers acceptances of 180 days or less, certain repurchase agreements, high quality money market funds and highly rated guaranteed investment contracts. The University's endowment portfolio may invest in all of the above as well as certain listed investment grade securities, certain shares of investment companies, and new issues of investment grade common stock.

For donor-restricted endowments, Chapter 540A of the Code of Iowa permits the University to appropriate an amount of realized and unrealized endowment appreciation as the University determines to be prudent pursuant to a consideration of the University's long-term and short-term needs, its present and anticipated financial requirements,

expected total return on its investments, price level trends and general economic conditions. The University's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the University. The University's spending rule is that five percent of market value based on a three-year rolling market average will be calculated and distributed per the requirements of the endowment.

The University's investments at June 30, 2004, are reported at fair value and categorized below by credit risk and type of investment. Investments in real estate are not subject to credit risk categorization. As defined by GASB Statement No. 3, the three types of credit risk are:

- Category 1 Insured or registered securities or securities held by the University or its agent in the University's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty's trust department or agent, but not in the University's name.

<i>Investment</i>	<i>Category 2</i>	<i>Category 3</i>	<i>June 30, 2004</i>	<i>June 30, 2003</i>
<i>U.S. Government Securities</i>	\$191,394,277	\$ 408,048	\$191,802,325	\$161,101,077
<i>Common & Preferred Stocks</i>	32,044,721	858,309	32,903,030	70,527,927
<i>Corporate Notes/Bonds</i>	32,732,932		32,732,932	34,661,337
<i>Other</i>		140,706	140,706	128,148
<i>Subtotal</i>	<u>\$256,171,930</u>	<u>\$1,407,063</u>	257,578,993	266,418,489
<i>Real Estate</i>			486,077	486,077
<i>TOTAL</i>			<u>\$258,065,070</u>	<u>\$266,904,566</u>

C. Investments (Foundation)

Investments were comprised of the following balances as of June 30, 2004 and 2003:

<i>Investment</i>	<i>June 30, 2004</i>	<i>June 30, 2003</i>
<i>Pooled Investments:</i>		
<i>Bonds and Notes</i>	\$146,137,945	\$145,908,345
<i>Common Stock</i>	139,257,642	117,477,765
<i>Performance enhancement investments</i>	40,762,963	33,432,091
<i>Money Market Funds</i>	4,807,867	10,158,745
<i>Accrued Interest</i>	225,159	108,744
<i>Accrued Manager Fees</i>	(250,000)	(250,000)
<i>Total Pooled Investments</i>	<u>330,941,576</u>	<u>306,835,690</u>
<i>Other Marketable Securities:</i>		
<i>Bonds and Notes</i>	20,609,128	19,423,000
<i>Common Stock</i>	14,819,846	13,078,222
<i>Total Other Marketable Securities</i>	<u>35,428,974</u>	<u>32,501,222</u>
<i>Equity in Subsidiary</i>	2,546,928	2,640,107
<i>Real Estate and Other Investments:</i>		
<i>Real Estate</i>	7,583,350	7,589,559
<i>Notes Receivable</i>	1,763,079	1,827,886
<i>Notes Receivable from Affiliated Entities</i>	1,602,915	1,772,526
<i>Real Estate Contracts</i>	389,338	139,445
<i>Accrued Interest</i>	9,049	10,798
<i>Total Real Estate and Other Investments</i>	<u>11,347,731</u>	<u>11,340,214</u>
<i>Total Investments</i>	<u>\$380,265,209</u>	<u>\$353,317,233</u>

D. Deposits with Trustees

Funds on deposit with trustees for the purpose of paying current obligations of bond principal and interest at June 30, 2004 and 2003, totaled \$98,403 and \$518,091, respectively. In addition, funds on deposit with a trustee for the purpose of financing capital lease purchases at June 30, 2004 and 2003, totaled \$936,163 and \$325,000, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE, DUE FROM GOVERNMENT AGENCIES AND STUDENT LOANS RECEIVABLE**A. Accounts Receivable**

Accounts receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2004 and 2003, accounts receivable consisted of the following:

	<i>June 30, 2004</i>	<i>June 30, 2003</i>
<i>Accounts Receivable</i>	<i>\$26,123,289</i>	<i>\$35,907,536</i>
<i>Allowance for Doubtful Accounts</i>	<i>(956,402)</i>	<i>(927,524)</i>
<i>Accounts Receivable, Net</i>	<i>\$25,166,887</i>	<i>\$34,980,012</i>

B. Due from Government Agencies

Due from government agencies is composed of \$12,367,156 due from state and local government agencies and \$20,433,266 due from United States government agencies at June 30, 2004 and \$6,729,165 due from state and local government agencies and \$19,233,112 due from United States government agencies at June 30, 2003.

C. Student Loans Receivable

Student loans receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. Student loans receivable consisted of the following:

	<i>June 30, 2004</i>	<i>June 30, 2003</i>
<i>Student Loans Receivable</i>	<i>\$22,948,885</i>	<i>\$23,451,151</i>
<i>Allowance for Doubtful Accounts</i>	<i>(199,011)</i>	<i>(226,276)</i>
<i>Student Loans Receivable, Net</i>	<i>\$22,749,874</i>	<i>\$23,224,875</i>

D. Pledges Receivable (Foundation)

The components of the net pledges receivable as of June 30, 2004 and 2003 are as follows:

	<i>June 30, 2004</i>	<i>June 30, 2003</i>
<i>Gross Pledges Receivable</i>	<i>\$36,122,534</i>	<i>\$32,565,858</i>
<i>Allowance for Uncollectible Pledges</i>	<i>(1,715,238)</i>	<i>(2,447,503)</i>
<i>Discount to Present Value</i>	<i>(6,923,857)</i>	<i>(11,274,769)</i>
<i>Net Pledges Receivable</i>	<i>\$27,483,439</i>	<i>\$18,843,586</i>

The Foundation estimates payments on these pledges receivable as of June 30, 2004, will be received as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>
<i>2005</i>	<i>\$ 8,759,816</i>
<i>2006</i>	<i>8,977,469</i>
<i>2007</i>	<i>7,452,734</i>
<i>2008</i>	<i>3,400,250</i>
<i>2009</i>	<i>2,504,121</i>
<i>Thereafter</i>	<i>5,028,144</i>
<i>Total</i>	<i>\$36,122,534</i>

In addition, the Foundation has received notification of deferred gifts totaling approximately \$233,000,000 and \$235,000,000 as of June 30, 2004 and 2003, respectively, primarily in the form of revocable wills.

NOTE 4 - INVENTORIES

The inventory balances on the Statement of Net Assets are comprised of two distinct categories as described in Note 1G above and scheduled below:

	June 30, 2004	June 30, 2003
Supplies and Merchandise for Resale	\$10,289,170	\$10,492,841
Livestock	3,054,976	2,809,131
Total Inventories	\$13,344,146	\$13,301,972

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004, is summarized as follows:

	July 1, 2003				
	Restated	Additions	Transfers	Deductions	June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 4,692,530	\$	\$	\$	\$ 4,692,530
Land Improvements	5,459,629				5,459,629
Construction in Progress	83,454,614	74,909,896	(97,511,737)	(63)	60,852,710
Capital Assets, Nondepreciable	93,606,773	74,909,896	(97,511,737)	(63)	71,004,869
Capital Assets, Depreciable:					
Buildings	671,843,729		95,658,595	(765,371)	766,736,953
Land Improvements	11,915,087	3,103,030	805,846		15,823,963
Infrastructure	133,965,452	4,400,614	1,047,296		139,413,362
Equipment	227,398,771	14,980,771		(69,474,989)	172,904,553
Library	130,948,008	6,869,880		(420,827)	137,397,061
Capital Assets, Depreciable	1,176,071,047	29,354,295	97,511,737	(70,661,187)	1,232,275,892
Accumulated Depreciation:					
Buildings	330,470,191	19,913,807		(529,011)	349,854,987
Land Improvements	4,551,644	713,081			5,264,725
Infrastructure	74,925,981	5,755,337			80,681,318
Equipment	149,916,581	12,022,358		(49,661,939)	112,277,000
Library	100,093,452	6,488,383		(420,826)	106,161,009
Accumulated Depreciation	659,957,849	44,892,966	-	(50,611,776)	654,239,039
Depreciable Assets, Net	516,113,198	(15,538,671)	97,511,737	(20,049,411)	578,036,853
Total Capital Assets, Net	\$ 609,719,971	\$ 59,371,225	\$ -	\$ (20,049,474)	\$ 649,041,722

Capital assets, net of accumulated depreciation, purchased with resources provided by outstanding capital lease agreements at June 30, 2004, consisted of \$511,537 of buildings, \$888,877 of equipment, and \$555,008 of construction in progress.

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, is summarized as follows:

	July 1, 2003	Additions	Deductions	June 30, 2004	Current Portion
Long-Term Debt:					
Bonds Payable	\$263,427,000	\$27,756,382	\$19,712,486	\$271,470,896	\$ 14,730,000
Notes Payable	13,277,769	517,737	7,481,286	6,314,220	589,939
Capital Leases Payable	1,757,719	1,187,800	486,539	2,458,980	324,324
Total Long-Term Debt	278,462,488	29,461,919	27,680,311	280,244,096	15,644,263
Other Long-Term Liabilities:					
Compensated Absences	35,707,726	17,807,693	16,919,229	36,596,190	16,629,018
Early Retirement Benefits Payable	8,392,746	4,189,652	2,688,858	9,893,540	4,043,510
Accrued Interest	5,592,258		859,850	4,732,408	
Refundable Advances on Student Loans	17,781,279	198,807		17,980,086	
Deferred Revenue	4,790,401		891,721	3,898,680	515,442
Total Other Long-Term Liabilities	72,264,410	22,196,152	21,359,658	73,100,904	21,187,970
Total Long-Term Liabilities	\$350,726,898	\$51,658,071	\$49,039,969	\$353,345,000	\$ 36,832,233

A. Bonds Payable

Outstanding long-term revenue bond indebtedness at June 30, 2004, consisted of the following:

	Interest Rates	Maturity Dates	Amount
Academic Building	3.00 – 6.85%	2005-2021	\$ 66,080,000
Dormitory	3.00 – 6.25%	2005-2030	136,960,000
Fieldhouse-Auditorium	4.50 – 5.10%	2005-2009	1,755,000
Indoor Multi-Purpose	2.00 – 4.50%	2005-2021	6,200,000
Less: Unamortized Discount			(87,834)
Parking System	2.30 – 5.00%	2005-2023	5,925,000
Recreational Facility	3.25 – 4.30%	2005-2011	7,160,000
Add: Unamortized Premium			98,644
Regulated Materials Facility	3.00 – 4.55%	2006-2020	6,750,000
Less: Unamortized Discount			(60,966)
Student Health Facility	4.80 – 5.50%	2005-2014	3,530,000
Telecommunications Facility	4.25 – 4.40%	2005-2008	3,430,000
Utility System	2.00 – 4.85%	2005-2025	33,905,000
Less: Unamortized Discount			(173,948)
Total Bonds Payable			\$ 271,470,896

Debt service requirements to maturity, as of June 30, 2004, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2005	\$ 14,730,000	\$ 13,791,270	\$ 28,521,270
2006	14,580,000	12,972,009	27,552,009
2007	14,940,000	12,309,435	27,249,435
2008	15,050,000	11,616,652	26,666,652
2009	14,980,000	10,816,604	25,796,604
2010-2014	75,180,000	37,723,049	112,903,049
2015-2019	47,645,000	23,991,103	71,636,103
2020-2024	41,570,000	13,231,241	54,801,241
2025-2029	31,585,000	3,788,436	35,373,436
Thereafter	1,435,000	33,184	1,468,184
Less: Unamortized Discount	(322,748)		(322,748)
Add: Unamortized Premium	98,644		98,644
Total	<u>\$ 271,470,896</u>	<u>\$ 140,272,983</u>	<u>\$ 411,743,879</u>

In May 2004, the University issued \$8,565,000 in Academic Building Revenue Refunding Bonds, Series 2004A and Series 2004B, the proceeds of which were held by the University Treasurer to advance refund \$8,480,000 of Academic Building Revenue Bonds, Series 1994 and Refunding Series 1994. The advance refunding of these bonds resulted in the recognition of an accounting loss of \$85,000, permitted the University to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$547,459, and will reduce future aggregate debt service payments over the next sixteen years by \$349,971.

In May 2004, the University issued \$6,210,000 in Recreational Facility Revenue Refunding Bonds, Series 2004, the proceeds of which were held by the University Treasurer to advance refund \$6,790,000 of Recreational Facility Revenue Refunding Bonds, Series 1994. The advance refunding of these bonds resulted in the recognition of an accounting gain of \$580,000, permitted the University to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$167,579, and will reduce future aggregate debt service payments over the next six years by \$898,916.

Also in May 2004, the University deposited funds into a trust fund held by the University Treasurer to defease \$5,210,000 of Dormitory Revenue Bond Series 1964A, Series 1965A, Series 1966A, Series 1967A and Series 1967G. The defeasance will result in an interest savings of \$396,560 over the next four years.

As a result of these defeasances, the liability has been removed from the Statement of Net Assets. The outstanding defeased debt as of June 30, 2004, is as follows:

	<i>Amount</i>
Academic Building	\$ 8,480,000
Dormitory	5,210,000
Recreational Facility	6,790,000
Total Defeased Debt	<u>\$ 20,480,000</u>

B. Notes Payable

The University had the following notes payable outstanding at June 30, 2004:

	<i>Interest Rates</i>	<i>Maturity Dates</i>	<i>Amount</i>
<i>Design College Computer</i>	2.24 - 5.20%	2005-2007	\$ 627,016
<i>Ice Arena Facility</i>	5.95%	2005-2013	1,298,199
<i>Memorial Union</i>	5.61%	2005-2006	4,389,005
<i>Total</i>			<u>\$6,314,220</u>

Debt service requirements to maturity, as of June 30, 2004, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2005	\$ 589,939	\$ 336,785	\$ 926,724
2006	4,589,806	193,091	4,782,897
2007	222,726	61,329	284,055
2008	144,678	52,128	196,806
2009	153,414	43,392	196,806
2010-2014	613,657	75,165	688,822
<i>Total</i>	<u>\$6,314,220</u>	<u>\$ 761,890</u>	<u>\$ 7,076,110</u>

C. Capital Leases Payable

The University has an equipment master lease agreement to finance the acquisition of certain equipment. The lease payments are due semi-annually through fiscal year 2014 and bear interest rates ranging from 3.27% to 5.78%. The principal balance was \$2,367,530 and \$1,611,741, respectively, as of June 30, 2004 and 2003.

In addition to the master lease agreement the University has other capital lease agreements with various manufacturers. These lease payments are due through fiscal year 2008 at interest rates ranging from 1.9% to 8.192%. The principal balance of these capital leases was \$91,450 and \$145,978 respectively, as of June 30, 2004 and 2003.

The following is a schedule by year of future minimum lease payments required:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2005	\$ 324,324	\$ 105,520	\$ 429,844
2006	331,493	91,698	423,191
2007	346,114	77,077	423,191
2008	336,013	62,103	398,116
2009	276,172	48,207	324,379
2010-2014	844,864	88,889	933,753
<i>Total</i>	<u>\$ 2,458,980</u>	<u>\$ 473,494</u>	<u>\$ 2,932,474</u>

NOTE 7 - OPERATING LEASES

The University has leased various buildings and equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. These leases expire before June 30, 2011, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the leased properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule, by year, of future minimum rental payments required under operating leases, which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2004.

<i>Year Ending June 30,</i>	<i>Amount</i>
2005	\$ 1,071,959
2006	834,876
2007	423,966
2008	318,598
2009	306,270
2010-2011	197,187
<i>Total</i>	<u><u>\$ 3,152,856</u></u>

All leases contain nonappropriation clauses indicating continuation of the lease is subject to funding by the legislature.

Rental expense for all operating leases was \$3,302,995 and \$3,086,324, respectively, for the years ended June 30, 2004 and 2003.

NOTE 8 - RESTRICTED NET ASSETS

The University's restricted net assets are classified according to externally imposed restrictions. The following table provides detail of the Restricted Net Assets balances.

	<i>June 30, 2004</i>	<i>June 30, 2003</i>
<i>Restricted-Nonexpendable:</i>		
<i>Permanently Endowed Funds</i>	\$28,071,960	\$27,626,992
<i>Restricted-Expendable:</i>		
<i>Student Loans</i>	9,080,048	9,031,159
<i>Scholarships, Research, and Educational Purposes</i>	11,024,360	10,189,739
<i>Capital Projects</i>	19,426,871	18,514,969
<i>Total Restricted-Expendable</i>	<u>39,531,279</u>	<u>37,735,867</u>
<i>Total Restricted Net Assets</i>	<u><u>\$67,603,239</u></u>	<u><u>\$65,362,859</u></u>

The Foundation's temporarily and permanently restricted net assets are available for the following purposes:

	June 30, 2004	June 30, 2003
<i>Temporarily Restricted:</i>		
College Program Support	\$ 31,680,933	\$ 36,076,872
Student Financial Aid	12,788,286	13,059,780
Faculty and Staff Support	4,586,886	4,561,173
Research	4,562,104	3,990,217
Building, Equipment and Maintenance	35,064,661	41,734,886
Other	4,229,072	1,997,804
Total Temporarily Restricted Net Assets	\$ 92,911,942	\$101,420,732
<i>Permanently Restricted:</i>		
College Program Support	\$115,200,741	\$ 92,229,630
Student Financial Aid	111,171,109	91,263,649
Faculty and Staff Support	48,065,888	37,975,577
Research	11,391,300	9,924,320
Building, Equipment and Maintenance	1,636,781	1,475,509
Other	7,789,161	8,121,158
Total Permanently Restricted Net Assets	\$295,254,980	\$240,989,843

NOTE 9 - RETIREMENT PROGRAMS

A. Teachers Insurance and Annuity Association (TIAA-CREF)

The University contributes to the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) retirement program that is a defined contribution plan. TIAA-CREF administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provisions and contribution requirements. As required by the Board of Regents' policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA-CREF, each employee through the fifth year of employment contributes 3 1/3% of the first \$4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first \$4,800 of earnings and 10% on earnings above \$4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. The University's required and actual contributions amounted to \$29,553,851 and \$28,073,397 respectively, for the years ended June 30, 2004 and 2003. The employees' required and actual contributions amounted to \$14,776,926 and \$14,036,699, respectively, for the years ended June 30, 2004 and 2003.

B. Iowa Public Employees Retirement System

The University contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary; the University is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. These contribution requirements are established by State statute. The University's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$652,602, \$554,560, and \$527,076, respectively, equal to the required contributions for each year.

C. Early Retirement

In addition to the retirement systems described above, faculty, professional and scientific employees, merit system employees, institutional officials, and staff of the Board Office not under the Regent Merit System who were employed by the Board of Regents for a period of at least fifteen continuous years and who attained the age of 57 by June 30, 2002 were eligible for participation in the early retirement incentives program. During the years of participation in the program, the University provides the following fringe benefits based upon the employee's salary at the time of retirement and adjusted for changes in benefits that occur at specific ages: (1) the employer's contributions for health and dental insurance until the employee is eligible for Medicare coverage; (2) a \$4,000 paid-up life insurance policy; and (3) for employees covered by the TIAA/CREF retirement program, employee's and employer's contributions for up to three years and employer's contributions for up to an additional two years, with contributions payable for a maximum of five years or until eligible for full Social Security benefits, whichever occurs first (contributions for employees covered by IPERS are available as a cash payment equal to the present value of the benefits). As an alternative, if the employer agrees, all or part of the incentives except the \$4,000 life insurance policy could be provided as a cash payment equal to the present value of the benefit(s) for which it is substituted. The discount rate used in calculation of the present value is determined by the Board of Regents annually and was approved at 1.0% for fiscal year 2004.

At its July 2001 meeting, the Board of Regents approved discontinuation of the early retirement incentive program upon its expiration on June 30, 2002. The Board also authorized each institutional head to exercise discretion as to whether faculty and staff who qualified for participation in the program on June 30, 2002, may have two years after expiration of the program to request participation. As a result of this change, faculty and staff of the University who were qualified for participation as of June 30, 2002, had through June 30, 2004, to elect participation.

As of June 30, 2004, 358 employees had elected to receive these benefits, for which the University is committed to future benefit payments totaling \$9,893,540 as reported on the Statement of Net Assets. During the fiscal years ended June 30, 2004 and 2003, the University paid \$3,278,090 and \$3,358,676, respectively, for continuing benefits. During the fiscal years ended June 30, 2004 and 2003, the University paid \$152,043 and \$232,830, respectively, in lump sum payments for this program. All incentive payments are financed on a pay-as-you-go basis.

NOTE 10 - COMMITMENTS AND RISK MANAGEMENT

A. Commitments

At June 30, 2004 and 2003, the University had outstanding construction contract commitments of \$20,965,705 and \$41,534,910, respectively.

B. Risk Management

Iowa State University has elected to self-insure, or internally assume, certain potential losses where management believes it is more economical to manage these risks internally. The University's exposure and management of various risks are delineated below.

1. Employee Health and Dental Benefits

The State of Iowa purchases commercial health and dental insurance for general service staff of the University. The University and employees share the cost of the premium and reimburse the State for the coverage. The University self-funds its medical and dental insurance for non-general service staff employees. The University insures its medical claims with stop-loss insurance at 120% in aggregate for the HMO plan, 125% in aggregate for all other plans, and a \$300,000 individual maximum.

The following schedule presents the changes in claims liabilities for self-funded medical and dental insurance. The claims liabilities were calculated according to generally accepted actuarial principles in accordance with Actuarial Standard of Practice No. 5, and based on data provided by the University and the health plan vendors.

	2004	2003
<i>Unpaid Claims and Contingent Liabilities Accrued at July 1, 2003 and 2002</i>	\$ 3,537,000	\$ 3,126,000
<i>Claims Incurred and Contingent Liabilities Accrued During the Fiscal Year</i>	30,722,394	30,794,826
<i>Payments on Claims During the Fiscal Year</i>	(31,026,394)	(30,383,826)
<i>Unpaid Claims and Contingent Liabilities Accrued at June 30, 2004 and 2003</i>	<u>\$ 3,233,000</u>	<u>\$ 3,537,000</u>

2. Employee Workers' Compensation/Unemployment Insurance

The State of Iowa self-insures, on behalf of the University, for losses related to workers' compensation and unemployment claims on state supported employees. The Iowa Department of Administrative Services (DAS) administers both programs. At the beginning of the fiscal year, DAS calculates an annual workers' compensation premium to be paid in quarterly increments for non-state supported employees of the University. The University's share of unemployment claims for non-state supported employees is also billed quarterly. The University establishes an internal rate for each program and separately charges each department for the benefits. Receipts from these charges are deposited into two separate reserve funds, considered self-insured pools, from which the quarterly payments are made. Since these reserves are maintained at a level adequate to pay the required premiums by adjusting the internal rates, no additional risk is assumed.

3. Employee Medical and Dependent Care Flexible Spending Programs

Eligible University employees have an option to participate in one or two flexible spending programs where they can elect to have a maximum of \$5,000 deducted from payroll on a pre-tax, non-refundable basis for either or both programs. These pre-tax deductions are used by the employee to cover qualified uninsured medical, dental and vision claims under the Medical Flexible Spending Program and/or qualified dependent care expenses under the Dependent Care Flexible Spending Program. The Medical Flexible Spending Program carries an element of self-insurance risk, as required by federal law. Since the University deducts only 1/12 of an annually elected amount from the employee's pay each month, but is liable for the total annual elected amount upon presentation of appropriate claims, it would be at risk for the difference between an employee's total reimbursed claims and the amount collected from payroll deductions should the employee terminate before contributing the total amount. The University, by law, cannot seek restitution for this difference. This same risk does not apply to the payroll deduction for the Dependent Care Flexible Spending Program as an employee can only claim what has been deducted from their payroll. These employee contributions are maintained in a separate account, which has carried a surplus balance since inception of the program due to contributions exceeding claims each year. This surplus balance is used to fund the administrative costs of the program.

4. General Liability

The State maintains an employee fidelity bond whereby the first \$100,000 of losses is the responsibility of the University. Losses between \$100,000 and \$2,000,000 are insured. The University also maintains an employee blanket bond to cover losses up to \$4,000,000.

The State of Iowa self-insures, on behalf of the University, losses related to tort claims. The Board of Regents entered into an agreement with the Department of Management, the State Appeal Board, and the Attorney General for resolution of tort claims of \$5,000 or less. Regents institutions are authorized to approve individual claims up to \$5,000, but not to exceed \$100,000 in aggregate per year. Tort claims settled or allowed in excess of \$5,000 must be unanimously approved by all members of the State Appeal Board, the Attorney General, and the District Court of the State of Iowa for Polk County. Tort claims may be paid from the State's General Fund without limit.

5. Motor Vehicle Insurance

The Board of Regents' institutions cooperatively self-insure for liability losses related to motor vehicles up to \$250,000. Each Regents' institution is required to pay a pre-determined monthly premium for each vehicle into the cooperative insurance pool. Losses in excess of \$250,000 are self-insured by the State as provided in Chapter 669 of the Code of Iowa. The University self-insures its vehicles for physical damage.

6. Property Insurance

The State of Iowa self-insures, on behalf of the University, property deemed general University property which is exclusive of property belonging to self-supporting enterprises. A contingency fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (includes general University property). The Code of Iowa states that claims in excess of \$5,000 or an annual aggregate of \$10,000 may be submitted to the Executive Council for consideration. When a loss exceeds \$500,000, it is necessary to seek an appropriation from the General Assembly. The University has purchased commercial property insurance, including earthquake and flood coverage, for its facilities. There is a \$2,000,000 deductible on general University buildings. Additional coverage is provided for enterprise facilities such as the residence system, Iowa State Center, power plant, etc., with deductibles ranging from \$10,000 to \$1,000,000 per occurrence.

7. Business Interruption Insurance

The University self-insures for business interruption losses of its general mission revenues, such as tuition and fees, etc. Commercial insurance is purchased to cover business interruption losses for self-supporting enterprises such as the golf course, residence system, Iowa State Center, etc.

8. Insurance Settlements

The University had no settlements exceeding insurance coverage in any of the past three fiscal years.

NOTE 11 - OPERATING EXPENSE BY FUNCTION

The following is a summary of operating expenses by functional classification for the year ended June 30, 2004.

	Compensation And Benefits	Supplies	Services, Repairs & Professional Services	Other	Total
Instruction	\$ 154,081,842	\$ 7,604,724	\$ 10,740,854	\$	\$ 172,427,420
Research	100,363,113	16,473,632	34,547,442		151,384,187
Public Service	44,722,737	5,948,490	15,905,467		66,576,694
Academic Support	53,160,940	8,114,395	7,700,587		68,975,922
Student Services	15,730,609	4,753,401	4,933,422		25,417,432
Institutional Support	32,599,801	(2,863,089)	(1,204,808)		28,531,904
Operation & Maintenance	24,559,371	18,475,356	1,368,998		44,403,725
Scholarships & Fellowships				20,005,848	20,005,848
Auxiliary Enterprises	47,175,085	27,293,887	10,510,486		84,979,458
Independent Operations	19,623,252	8,298,598	1,212,778		29,134,628
Depreciation				44,892,966	44,892,966
Other Operating Expenses				672,931	672,931
Total Operating Expenses	\$ 492,016,750	\$ 94,099,394	\$ 85,715,226	\$ 65,571,745	\$ 737,403,115

NOTE 12 - SEGMENT INFORMATION

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in those bonds rely solely on the revenue generated from the individual activities for repayment. The University's segments are described as follows:

A. Dormitory Revenue Bonds

The Dormitory Revenue Bonds were issued to build various residence halls, suites and apartments. Revenues pledged for these issues are the net rents, profits, and income from the Department of Residence facilities of the University.

B. Field House - Auditorium Revenue Bonds

The Field House - Auditorium Revenue Bonds were issued in 1968 to build Hilton Coliseum, originally named the Fieldhouse Auditorium. Revenues pledged for this issue are the Student Fieldhouse Auditorium Fee, revenues derived from Hilton Coliseum operations and interest on invested funds.

C. Ice Arena Facility Revenue Notes

The Ice Arena Facility Revenue Notes were issued in 2000 to construct, improve and equip an Ice Arena Facility. Revenues pledged for this issue are the student ice arena facility fees.

D. Indoor Multipurpose Use and Training Facility Revenue Bonds

The Indoor Multipurpose Use and Training Facility Revenue Bonds were issued in 2003 to construct the Stephen and Debora Bergstrom Indoor Multipurpose Use and Training Facility. Revenues pledged for this issue are gift income and the rents, profits and income derived from the operation of the facility, including the Multipurpose Use and Training Facility Student Fee.

E. Memorial Union Mortgage Notes

The Memorial Union was acquired by the University in 2003. The terms of the acquisition included the assumption of first mortgage notes under which the first mortgage lien and security interests in the facility are pledged as collateral. In addition, all leases, rents and revenues relating to the facility are assigned as security.

F. Parking System Revenue Bonds

The Parking System Revenue Bonds were issued in 2002 to recondition and expand vehicle parking spaces with the construction of a connecting roadway at Jack Trice Stadium. In addition, the bonds are to be used to construct a single level parking deck on the University campus and may also be used for other construction of improvement projects of the parking system. Revenues pledged for this issue are the net revenues of the University's parking system.

G. Recreational Facility Revenue Bonds

The Recreational Facility Revenue Bonds issued in 2004 refunded in advance of maturity the 2005 through 2010 maturities of the Recreational Facility Revenue Refunding Bonds, Series 1994, which had previously refunded the Recreational Facility Revenue Bonds of 1987. These bonds were issued to construct, improve and equip a combined recreation/athletic facility now known as the Lied Recreation Athletic Center. Revenues pledged for this issue are the student recreational facility fees and the student athletic fees.

H. Regulated Materials Facility Revenue Bonds

The Regulated Materials Facility Revenue Bonds were issued in 2003 to construct, furnish and equip a Regulated Materials Facility. Revenues pledged for this issue are the net revenues of the Regulated Materials Facility system.

I. Student Health Facility Revenue Bonds

The Student Health Facility Revenue Bonds were issued in 1995 to construct, improve and equip a student health center, now known as the Thomas H. Thielen Student Health Center. Revenues pledged for this issue are the Student Health Facility Fees, net income from the Student Health Center operations and gift income.

J. Telecommunications Facility Revenue Bonds

The Telecommunications Facility Revenue Bonds were issued in 1997 to construct, improve and equip the telecommunications facilities for the University. Revenues pledged for this issue are the net rents, profits and income from the telecommunications facilities of the University.

K. Utility System Revenue Bonds

The Utility System Revenue Bonds were issued to construct, improve and equip various components of the University's utility system. Revenues pledged for this issue are the net revenues of the utility system, utility system student fees and interest on investments.

IOWA STATE UNIVERSITY

SEGMENT INFORMATION

As of and for the year ended June 30, 2004

	Dormitory Revenue Bonds	Fieldhouse- Auditorium Revenue Bonds	Ice Arena Facility Revenue Notes	Indoor Multipurpose Facility Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current Assets	\$ 5,774,953	\$ 391,052	\$ 98,403	\$ 958,301
Noncurrent Assets	29,059,675	3,011,544	517,068	3,909,214
Capital Assets	133,133,338	3,533,660	3,497,620	9,094,045
Total Assets	167,967,966	6,936,256	4,113,091	13,961,560
Liabilities:				
Current Liabilities	7,877,234	390,167	98,403	827,677
Noncurrent Liabilities	135,881,776	1,420,000	1,238,418	9,295,405
Total Liabilities	143,759,010	1,810,167	1,336,821	10,123,082
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt	12,885,392	2,113,660	2,259,202	3,700,528
Restricted	248,922	1,205,490		(4,921)
Unrestricted	11,074,642	1,806,939	517,068	142,871
Total Net Assets	\$24,208,956	\$5,126,089	\$2,776,270	\$3,838,478

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating Revenues	\$49,807,980	\$2,695,453	\$	\$
Operating Expenses	(36,515,130)	(2,856,479)		
Depreciation Expense	(3,420,953)	(153,398)	(102,182)	
Net Operating Income/(Loss)	9,871,897	(314,424)	(102,182)	—
Nonoperating Revenues/(Expenses)	(9,040,004)	169,572	(90,253)	3,846,156
Transfers From/(To) University Funds	210,188	349,262	163,549	
Change in Net Assets	1,042,081	204,410	(28,886)	3,846,156
Beginning Net Assets	22,756,650	4,921,679	2,805,156	(7,678)
Prior Period Adjustment	410,225			
Ending Net Assets	\$24,208,956	\$5,126,089	\$2,776,270	\$3,838,478

CONDENSED STATEMENT OF CASH FLOWS

Net Cash and Cash Equivalents Provided/(Used) By:

Operating Activities	\$10,917,607	\$ (23,694)	\$	\$
Non-Capital Financing Activities	(872,866)			
Capital and Related Financing Activities	(36,986,319)	43,403	(60,525)	(2,680,432)
Investing Activities	(14,921,800)	(1,103,847)	16,003	26,083
Net Increase/(Decrease)	(41,863,378)	(1,084,138)	(44,522)	(2,654,349)
Beginning Cash and Cash Equivalents	39,649,234	1,047,189	561,590	2,853,106
Ending Cash and Cash Equivalents	\$ (2,214,144)	\$ (36,949)	\$ 517,068	\$ 198,757

Memorial Union Mortgage Notes	Parking System Revenue Bonds	Recreational Facility Revenue Bonds	Regulated Materials Facility Revenue Bonds	Student Health Facility Revenue Bonds	Telecommunications Facility Revenue Bonds	Utility System Revenue Bonds
\$1,077,153	\$ 792,085	\$1,130,494	\$ 169,211	\$3,268,781	\$ 1,274,393	\$16,862,628
57,487	1,934,698	1,316,631	5,865,652	1,297,379	10,639,142	13,593,300
9,143,054	6,070,979	6,407,307	1,921,936	4,583,452	14,306,553	41,725,406
10,277,694	8,797,762	8,854,432	7,956,799	9,149,612	26,220,088	72,181,334
324,847	549,128	1,257,613	310,728	522,798	1,064,597	3,555,320
4,292,111	5,745,552	6,216,913	6,689,034	3,464,659	2,723,942	32,173,645
4,616,958	6,294,680	7,474,526	6,999,762	3,987,457	3,788,539	35,728,965
4,754,050	841,229	197,307	96,367	1,298,452	12,668,724	17,469,528
	(462)	493,813	(3,181)	1,297,432	27,212	4,013,945
906,686	1,662,314	688,786	863,851	2,566,271	9,735,613	14,968,896
\$5,660,736	\$2,503,081	\$1,379,906	\$ 957,037	\$5,162,155	\$22,431,549	\$36,452,369
\$1,727,857	\$2,698,734	\$	\$ 55	\$7,498,833	\$ 7,525,337	\$27,221,795
(3,343,573)	(2,127,696)			(6,460,687)	(4,744,066)	(19,335,656)
(382,999)	(322,052)	(273,591)		(190,424)	(2,643,692)	(2,013,937)
(1,998,715)	248,986	(273,591)	55	847,722	137,579	5,872,202
(230,732)	(174,456)	(386,322)	(46,720)	(182,973)	(270,135)	(787,387)
1,739,887	(27,506)	1,213,049	1,003,702	481,978	401,406	(5,928)
(489,560)	47,024	553,136	957,037	1,146,727	268,850	5,078,887
6,150,296	2,590,047	826,770		4,015,428	22,162,699	31,373,482
	(133,990)					
\$5,660,736	\$2,503,081	\$1,379,906	\$ 957,037	\$5,162,155	\$22,431,549	\$36,452,369
\$ (180,926)	\$ 566,800	\$	\$ 55	\$1,046,636	\$ 2,823,733	\$ 8,162,694
(128,295)	(3,562,024)	(861,889)	5,807,170	64,940	(4,272,184)	(1,557,317)
22,186	76,568	1,404,594	(3,544,251)	(380,058)	(326,100)	(10,421,318)
(287,035)	(2,918,656)	542,705	2,262,974	731,518	(1,774,551)	(3,815,941)
1,400,517	4,568,119	779,750	-	2,491,970	4,808,280	21,829,803
\$1,113,482	\$1,649,463	\$1,322,455	\$2,262,974	\$3,223,488	\$ 3,033,729	\$18,013,862

NOTE 13 - PRIOR PERIOD ADJUSTMENT

Capital assets were reduced by \$16,376,000 for gifts of developmental software recognized in fiscal year 2003 which should not have been capitalized or recognized since a major uncertainty exists regarding the future economic benefit of the software. Invested in Capital Assets, Net of Related Debt was reduced by \$16,376,000.

Capital assets were increased by \$2,588,023 for the correction of a mathematical error in the calculation of prior year building depreciation. A corresponding increase in Invested in Capital Assets, Net of Related Debt was also recorded.

NOTE 14 - SUBSEQUENT EVENT

Subsequent to June 30, 2004, the Board of Regents, State of Iowa, authorized the sale of Memorial Union Revenue Bonds, Series I.S.U. 2004 for \$24,625,000 to be issued on December 1, 2004. These bonds will bear interest at varying rates between 2.5% and 4.625% and will mature in varying amounts from July 1, 2006 through July 1, 2030. The proceeds of these bonds will be used to finance the cost of improving, remodeling, repairing, and constructing additions to the Memorial Union Building and the Memorial Union Parking Facility, refund the outstanding first mortgage notes, Series 2000, fund a debt service reserve, and pay for costs of issuance. These bonds will be payable solely and only out of the Net Revenues of the Memorial Union.

**IOWA STATE UNIVERSITY CONTROLLER'S DEPARTMENT
FINANCIAL ACCOUNTING AND REPORTING STAFF**

Margaret S. Pickett, Assistant Vice President for Business & Finance and Controller

Stephanie Fox, Associate Controller

Carol Yanda, Manager of Financial Accounting & Reporting

Kevin Houlette, Senior Accountant

Michele Maldonado, Senior Accountant

Carla Sacco, Senior Accountant

Alicia Duncan, Accountant

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